



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West Provincial Legislature and the council on the Dr. Kenneth Kaunda District Municipality

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Dr. Kenneth Kaunda District Municipality and its subsidiary set out on pages **xx to xx**, which comprise of the consolidated and separate statement of financial position as at 30 June 2017, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Dr. Kenneth Kaunda District Municipality and its subsidiary as at 30 June 2017, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that the municipality reviewed the assets for indications of impairment as required by the GRAP 17, *Property, plant and equipment*, due to status of accounting records. I was unable to confirm that these assets had been impaired by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment of R30 149 110 and R29 833 115, as disclosed in note 3 to the consolidated and separate financial statements.

Contracted services

4. I was unable to obtain sufficient appropriate audit evidence that services were received for payments of R8 242 812 made to contractors as the information and explanations I considered necessary could not be provided by management. I was unable to confirm these payments classified as contracted services by alternative means. Consequently, I was unable to determine whether any adjustments relating to contracted services of R 25 283 104 and R24 987 802, as disclosed in the consolidated and separate statement of financial performance and note 34 to the financial statements were necessary.



Depreciation

5. The municipality incorrectly accounted for depreciation in the statement of financial performance as it did not agree to the underlying accounting records and depreciation in note 3 to the consolidated and separate financial statements. Consequently, the depreciation and amortisation expense was overstated by R1 841 606. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Statement of comparison of budget and actual amounts

6. The municipality did not present all required information, as required by GRAP 24, *Presentation of budget information in the financial statements*, in the statement of comparison of budget and actual amounts as the consolidated and separate financial statements did not include the reconciliation for net cash flows from financing and investing activities. I was unable to quantify the resultant impact of the omitted disclosure.

Irregular expenditure

7. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R12 944 646 (2016: R25 024 770) in contravention with the Supply Chain Management (SCM) requirements, which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure in the current and prior year, it was impracticable to determine the resultant understatement of irregular expenditure of R81 401 700 and R76 552 949, as disclosed in note 51 to the consolidated and separate financial statements.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this report.
9. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to financial sustainability

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, fruitless and wasteful expenditure

13. As disclosed in note 49 to the consolidated financial statements, unauthorised expenditure of R12 620 301 was incurred in the current year and the unauthorised expenditure of R37 848 620 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
14. As disclosed in note 50 to the consolidated financial statements, fruitless and wasteful expenditure of R48 052 was incurred in the current year and fruitless and wasteful expenditure

of R10 652 677 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

15. As disclosed in note 46 to the consolidated and separate financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Other matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

18. The supplementary information set out on pages **XX** to **XX** does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the consolidated and separate financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

21. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
22. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Introduction and scope

23. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the district municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance areas presented in the annual performance report of the district municipality for the year ended 30 June 2017:

| Key performance area | Pages in the annual performance report |
|---|--|
| KPA 1 – basic services and infrastructure development | x – x |
| KPA 3 – district economic development | x – x |

26. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

KPA 1 – basic services and infrastructure development

KPI 1: percentage of environmental health complaints attended to within five (5) days by June 2017

28. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for this indicator, due to a lack of technical indicator descriptions, absence of formal standard operating procedures that predetermine how the achievement would be measured, monitored and reported and lack of proper processes that produce the result for the indicator as required by the Framework for Managing Programme Performance Information (FMPPI). I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustment was required to the reported achievement of 95% of environmental health complaints attended to within five (5) days by June 2017.

KPA3 – district economic development

KPI 25: number of youth identified for development on innovative project by December 2016

29. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the indicator, as required by the FMPPI. This was due to a lack of technical indicator descriptions and processes and formal standard operating procedures or documented systems descriptions that predetermine how the achievement would be measured, monitored and reported, as required by the FMPPI. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported non-achievement of five youth identified for development on project by December 2016.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 30 to 31 of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic services and infrastructure development and district economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the district municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
34. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Strategic planning and performance management

35. Annual performance objectives and indicators for the Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited were not established by agreement between the municipality and the entity, as required by section 93B(a) and 93C(a)(iv) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (Municipal Systems Act).

Budgets

36. Reasonable steps were not taken to prevent unauthorised expenditure of R12 620 301, as disclosed in note 47 to the financial statements, as required by section 62(1)(d) of the MFMA.



The majority of the disclosed unauthorised expenditure was caused by overspending on budget for individual votes.

Financial statements

37. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

38. The preference point system was not applied in some procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).
39. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
40. Bid adjudication committees were not always composed in accordance with SCM regulation 29(2).
41. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

Human resource management

42. Appropriate systems and procedures to monitor, measure and evaluate performance of staff other than directors were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act.

Expenditure management

43. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The irregular expenditure disclosed in note 51 does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with the preferential point system and the composition of the bid adjudication committee.
44. Effective steps were not taken to prevent fruitless and wasteful expenditure of R39 542, as disclosed in note 50 to the separate financial statements, in contravention of section 62(1)(d) of the MFMA.

Assets management

45. The municipality made investments in listed securities that were not in accordance with the requirements of the investment policy, as required by regulations 3(3) and 6 of the Municipal Investment Regulations.

Consequence management

46. The unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.



Other information

47. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in the auditor's report.
48. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. I did not receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

51. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for a qualified audit opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- The accounting officer did not adequately oversee financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring controls to ensure that financial and performance reports submitted for auditing were accurate and complete.
 - Senior management did not implement adequate control disciplines over financial and performance reporting and compliance with key legislation. There was a lack of a proper records management system that could support the information reported in the financial statements and performance report and, as a result, material errors and omissions were identified during the audit process.
 - Internal audit processes did not always identify internal control deficiencies and recommend appropriate corrective action effectively. This resulted in significant and recurring control deficiencies relating to the preparation of financial and performance reports and compliance with legislation.

Other reports

52. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the district municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.



53. The South African Police Service was investigating a case of fraud against a service provider who failed to perform in terms of a contract during the period February 2015 to June 2015. The investigation was still in progress at the reporting date.
54. The South African Police Service was investigating a case of fraud at the request of the municipality. The investigation was still in progress during the time of this report.

Auditor-General
Rustenburg

18 December 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the district municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Dr Kenneth Kaunda District Municipality and its subsidiary to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a district municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the municipality to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the municipality audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.



